

**THE IMPACT OF  
GOVERNMENT INCENTIVES  
ON URBAN AND SUBURBAN  
GROWTH PATTERNS**

*or*

WHY WE NOW NEED A  
“SMART GROWTH”  
COMMITTEE

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*In conjunction with*

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Growth and Urban Policy

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# Policies Behind Government Incentives Include:

- Remediation and re-use of contaminated land
- Capture new and/or grow existing tax revenues
- Create job opportunities
- Guide community growth

# The “Flavors” of Incentives

- Direct – an incentive that addresses a specific business cost (e.g., tax incentives)
- Indirect – an incentive that guides a decision from a higher level (e.g., governmental regulations)

# What is “Smart Growth?”

*Remember:*

All politics is local, and environmental and growth issues originate at the local level, from the use of land or property.



# The issue....

- More people, more consumption.
- Limited space, limited resources.
- “Ecological footprint.”
- Growth happens.
  - Grow “smart” or grow “dumb”?
  - Sustainability?
  - Are we getting what we want? Are we getting what we pay for? Is there a difference?
  - Growth occurs within a framework.

# Sprawl v. Smart Growth

- Sprawl:
  - Outward extension into undeveloped areas; “exurbia”
  - Low density
  - Leapfrog development
- Smart Growth:
  - Directing development toward existing communities
  - Compact building design
  - Preservation of greenfields

# What's so smart about smart growth?

## Minimize detrimental consequences of sprawl

- Consumption of land and natural resources
- Infrastructure costs
  - Roads – more automobile dependent
  - Power – greater need
    - Supply side and demand side management
  - Water and sewer
    - Where does it come from, where does it go
- Quality of life and social costs
- Tax base

# How do we get “smart growth”?

- Mix land uses.
- Take advantage of existing community assets.
- Create a range of housing opportunities and choices.
- Foster “walkable” neighborhoods.
- Foster distinctive, attractive communities with a strong sense of place.
- Preserve open space, farmland, natural beauty, and critical environmental areas.
- Strengthen and encourage growth in existing communities.
- Provide a variety of transportation choices.
- Make development decisions predictable, fair, and cost-effective.
- Encourage community and stakeholder participation in development decisions.

# The Economics of Sprawl

Costly in the long run:

- drains real property and income tax revenues from local government
- challenges government to provide additional infrastructure to the detriment of existing infrastructure
- environmental impacts

# The Market – Does it offer what consumers want?

<b>Site Selection Factors</b>		<b>2004</b>	<b>2005</b>
<b>Ranking</b>			
1	Highway accessibility	90.2	91.4
2	Labor costs	96.4	87.9
3	Availability of skilled labor	89.1	87.2
4	<i>State and local incentives</i>	87.5	86.0
5	Availability of high-speed Internet	80.7	85.7
6	Corporate tax rate	84.4	85.0
7	Occupancy or construction costs	83.6	83.7
8	Tax exemptions	83.3	83.6
9	Proximity to major markets	72.7	83.2
10	Energy availability and costs	85.8	82.8
14	Availability of land	75.7	75.0

Source: Area Development 2005 Corporate Survey

# The Market – Has it been shaped by the incentives?

Yes and No

- Indirect incentives such as publicly subsidized infrastructure expansion have directed growth into greenfield areas ... usually done by states
- Direct incentives such as tax credits and abatements influence location decisions within local regions, but other market factors must be in place first

## The Market – *is changing*

*U.S. companies are becoming increasingly concerned with quality of life issues and sustainability*

- Perception of customer base
- Institutional investor demands
- Impact on ability to attract and retain employees



# The Geography of Sprawl

Adjacent jurisdictions – the incentives race (who has the most carrots?)

Overlapping jurisdictions:

- can lead to combining & leveraging incentives; but
- can raise questions as to who has authority to regulate (who has the biggest stick?)

# State and Local Incentives

## Tax and other direct financial incentives

### – What are they?

- Incentives are direct monetary subsidies from public entities to businesses to influence location and investment decisions
- Examples:
  - ✓ Job Creation Tax Credits
  - ✓ Real and personal property tax abatements
  - ✓ Grants for worker training
  - ✓ Low-cost loans

# State and Local Incentives

## Tax and other direct financial incentives

– Are they working (as originally intended?)

➤ It's hard to say ... it's almost impossible to determine what would have happened had incentives not been available

➤ Enterprise Zone Programs (property tax abatements)

- Studies of EZ programs throughout the nation tend to show little evidence of program success

# State and Local Incentives

## Policy Objective

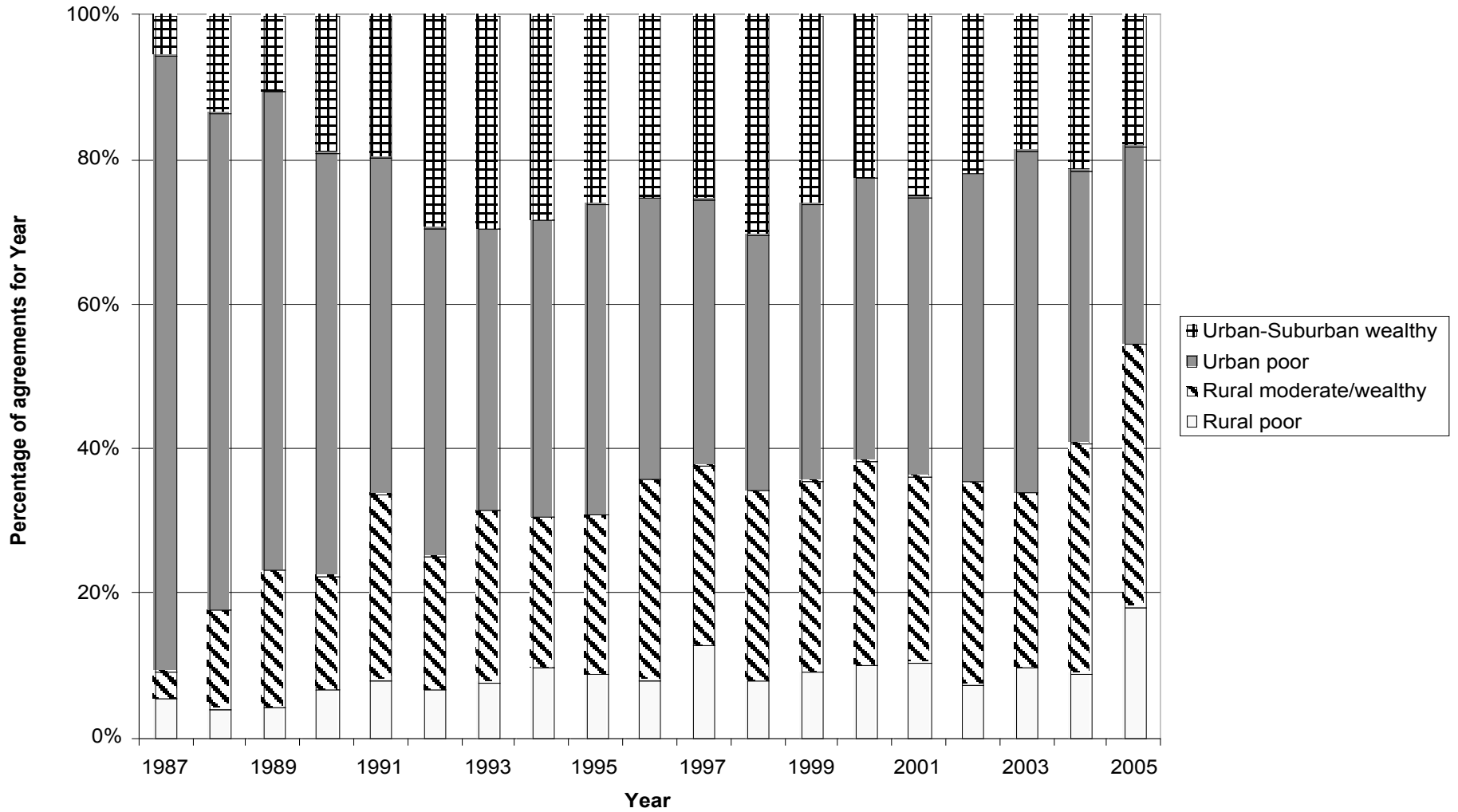
- Originally – most programs were targeted at distressed urban areas
- Today – most states have expanded programs to include non-distressed areas
- Impacts on central cities and concepts of smart growth:
  - Distressed/poorer communities must offer more to attract businesses
  - Diverts limited funding resources from distressed areas

Tax Incentives

go

“Up Town”

**Figure 1: Distribution of Enterprise Zone Agreements Over Time**



# Environmental Regulatory Incentives

- ❑ Air and water regulation and how they impact site-selection
- ❑ Evolution of brownfield remediation incentives

# How the Clean Air Act affects growth

- Air Quality: Attainment vs. Non-Attainment
- Getting air permits for new sources



Conformity: marrying transportation  
planning and clean air

- Conformity provisions in the Clean Air Act
- SAFETEA and Air Quality

## On the horizon . . .

- PM2.5
- Carbon regulation

# Energy and Smart Growth

- Energy, economics and carbon regulation
- Two key questions: How? Where?
- Energy security in a re-regulated environment

# Environmental Regulatory Incentives

## Clean Water Act – Section 303(d)

- 303(d) Total Maximum Daily Loads (TMDLs)
- Amount of a specific pollutant that a waterbody can receive and still meet water quality standards.
- Develop lists of impaired waters for specific pollutants.

# Environmental Regulatory Incentives

## Clean Water Act – Section 303(d) *(cont.)*

- Establish a “loading” for the impaired water for the pollutant of concern.
- Allocate that pollutant loading to the dischargers on the waterbody.
- Can impact existing and proposed industrial facilities.

# Environmental Regulatory Incentives

## Clean Water Act – Section 404

- Established a permit program regarding discharges of dredge and fill material into “waters of the United States”
- Administered in most states by the U.S. Army Corps of Engineers

# Environmental Regulatory Incentives

## Clean Water Act – Section 404 *(cont.)*

- No net loss of wetlands policy
- Avoid or evade
- Mitigation

# Environmental Regulatory Incentives

Evolution of brownfield remediation incentives:  
from clean up to readying land for re-use.

- Technical: “Garden of Eden” to risk-based land use
- Legal: CERCLA liability to Bona Fide Prospective Purchasers and Innocent Landowners
- Programmatic: Superfund Enforcement to Voluntary Cleanup Programs and Ready for Reuse Determinations



# Environmental Regulatory Incentives

Evolution of brownfield remediation incentives:  
Grants, Tax Incentives, and Funding.

- Grants: assessment, cleanup and job training
- Loans: capitalization of revolving loan funds, low-interest loans
- Federal Brownfield Tax Incentive: expensing of remediation costs rather than capitalization
- Property Tax Abatement
- Direct Participation: EPA Targeted Brownfield Assessment, HUD, EDA, and local government

## Where Do We Go From Here

- What's working; what isn't  
*What is the policy goal?*
- Ongoing reforms  
*federal vs state vs local government*
- The role of the legal profession

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